

FITCH AFFIRMS POSTBANK'S MORTGAGE PFANDBRIEFE ON VR WITHDRAWAL

Fitch Ratings-Frankfurt/London-23 August 2017: Fitch Ratings has affirmed Deutsche Postbank's (PB, A-/Negative/F1) mortgage Pfandbriefe at 'AAA' with Stable Outlook. The Issuer Default Rating (IDR) uplift to the mortgage Pfandbriefe rating has been revised to two notches from one notch, leading to a 'A+' floor rating for the covered bonds. The buffer against an IDR downgrade has thus increased by one notch.

The rating action follows the affirmation of Deutsche Postbank's (PB, A-/Negative/F1) Long-Term IDR, the upgrade and withdrawal of its Viability Rating (VR) (see "Fitch Affirms Deutsche Postbank at 'A-', Outlook Negative; Withdraws VR" dated 22 August 2017 at www.fitchratings.com). The withdrawal reflects Fitch's expectation of increased integration of PB into the operations of Deutsche Bank (A-/Negative/F1).

The programme's revised IDR uplift reflects the high likelihood of support from DB, whose IDR is driven by its VR, and Fitch's view that resolution of PB is not likely to result in the direct enforcement of recourse against the cover pool due to the operational integration of PB into DB. It is also based on our unchanged assessment that German Pfandbriefe are exempt from bail-in and the low risk of under-collateralisation at the point of resolution.

As the programme continues to be classified as dormant, Fitch relies on the publicly stated level of over-collateralisation (OC) of 16.5% on a nominal base, which equals the unchanged breakeven OC. This level of OC supports a 'AA' rating on a tested probability of default basis and allows for a two-notch recovery uplift as the OC that Fitch relies upon offsets credit losses modelled in a 'AAA' stress scenario. The public OC commitment is only valid for PB's residential mortgage Pfandbrief programme (cover pool D) and features a one-month notice period.

The Outlook is Stable, despite the Negative Outlook on PB, since the rating can sustain a two-notch downgrade of PB's IDR without impacting the 'AAA' Pfandbrief rating.

RATING SENSITIVITIES

The 'AAA' rating would be vulnerable to downgrade if any of the following occurs: (i) the IDR is downgraded by three or more notches to 'BBB-' or below; or (ii) the number of notches represented by the IDR uplift and PCU is reduced by three or more notches; or (iii) the OC that Fitch considers in its analysis decreases below Fitch's 'AAA' breakeven level of 16.5%.

If the OC that Fitch considers in its analysis drops to the legal minimum requirement of 2% on a net present value basis, it would not sustain timely payment in scenarios above the IDR adjusted by the IDR uplift, and would support recoveries given default commensurate with one further notch. As a result, the covered bond rating would likely be downgraded to 'AA-'.

The Fitch breakeven OC for the covered bond rating will be affected, among others, by the profile of the cover assets relative to outstanding covered bonds, which can change over time, even in the absence of new issuance. Therefore the breakeven OC to maintain the covered bond rating cannot be assumed to remain stable over time.

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Applicable Criteria
Covered Bonds Rating Criteria (pub. 26 Oct 2016)
<https://www.fitchratings.com/site/re/888874>
Global Bank Rating Criteria (pub. 25 Nov 2016)
<https://www.fitchratings.com/site/re/891051>

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